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The Greenlining Institute is a multi-ethnic public policy and leadership training center in San Francisco that represents forty minority, low-income, small business, civil rights, and community-based organizations throughout California. Its purpose is to promote low-income and minority economic development and increase minority community participation in policymaking. The Institute works to establish partnerships between community groups, corporations and government to increase sound investment in traditionally underserved markets. The Institute's leadership Academy trains diverse college and graduate level students who aspire to be leaders in community advocacy, public policy and economic development. An advocacy-oriented think tank, Greenlining also publishes policy background papers to educate diverse community leaders on how economic issues impact low-income and minority communities.

The Greenlining Institute is, and always has been, a strong advocate for affordable housing. Through the \$600 billion in community reinvestment commitments Greenlining has always ensured that financial institutions invest heavily in housing to California's low-income and minority communities.

Recently, we released two reports on home lending to African Americans and Latinos. Our major finding is that the American Dream of homeownership, available to over 72 percent of all white families, is barely available to African Americans and Latinos in most of California.

In increasing measure, the cause of this homeownership racial divide is not institutional discrimination but a series of mostly unintended consequences of laudable objectives, such as rigid environmental restrictions that create artificial land scarcity and spiraling home prices.

In most of the nation, families earning \$41,000 a year can afford the cost of a median-priced home (\$139,000). Not so in California, where the median-priced home exceeds \$251,000,¹ and in many areas exceeds \$400,000.

Partly as a result of these environmental restrictions and unaffordable home prices, only two percent (2.6%) of all conventional home loans in California were made to African Americans in 1999.² This embarrassingly modest lending percentage occurred despite many innovative programs offered by major banks, including no downpayment programs, special outreach, limited closing costs and special below market financing. All of these

¹ As of November, 2000, according to the California Association of Realtors

² Data not available for the year 2000 until October 2001. 1999 data is from the Federal Reserve Bank of San Francisco and verified data from 12 major financial institutions.

special bank efforts, many of which are consistent with Dr. King's economic dreams, are likely to have eliminated much of the racial divide in homeownership had California's home prices been at the relatively affordable national average of \$139,000.

Despite huge Latino population increases in California, conventional home loans to Latinos represent only a third of what they should be after adjustments for population and age. According to the Federal Reserve Bank of San Francisco:

- Latinos in California received only 8.5 percent of all conventional home loans made. Since Latinos represent 30 percent of the population, this represents a dangerous three and a half to one difference.
- In Los Angeles County, Latinos received only 11.4 percent of all conventional home loans. Since Latinos represent 46 percent of the Los Angeles County population, this represents a four to one differential that endangers Los Angeles' dominant economic role.

Had home prices been affordable, it is estimated that 28,000 conventional home loans (7% of total) would have been made to California's African American population in 1999, rather than the 10,000 made. Thus, the affordability crisis could cause a shortfall of 18,000 new African American homeowners per year.

South Central Los Angeles, a community with a population (1.3 million) exceeding that of Boston, the District of Columbia, San Francisco or San Jose, exemplifies this homeownership racial divide. In 1999, the nine largest banks in California made just 59 conventional home loans to African Americans earning less than \$41,000 or 80% of median income.

South Central is home to thousands of so-called brownfield sites. (Los Angeles County has over 35,000 such sites, and the state has an estimated 119,000.) On many of these sites, affordable housing could be built were it not for rigid and sometimes artificial environmental conditions. It is estimated that between 250,000 and 350,000 additional affordable units could be built in Los Angeles alone were environmentally-balanced legislation enacted.

Statewide, a similar lending problem exists. Bank of America and Washington Mutual, despite many exemplary minority and low-income outreach programs including very low- and no-downpayment programs, made less than two percent of all their conventional home loans to African Americans (Bank of America at 1.9% and Washington Mutual at 1.7%). Two major global banks, Citibank and Chase, did no better (Citibank at 1.8% and Chase at 1.9%). And statewide, the average was 2.6%, with only U.S. Bancorp above three percent for African Americans.

Recommendations to Close the Homeownership Gap

Over the last decade, community groups have encouraged financial institutions to close the homeownership divide in California (estimated 72 percent white homeownership and less than 40 percent African American and Latino).

Many financial institutions have not only eliminated discriminatory criteria, such as heavy reliance on biased credit scoring, but have engaged in major minority outreach programs. However, even if all financial institutions offered no-downpayment programs and prime rates, the vast majority of aspiring African American homeowners cannot afford the product. (In Silicon Valley, for example, the median home price exceeds \$500,000, which few homeowners earning less than \$160,000 can afford.)

Lack of affordability is largely due to the disparity between supply and demand. Statewide demand exceeds 250,000 units a year, and the supply over the last five years averages only 140,000 units. In measurable part, this supply-demand disparity is not due to a shortage of available land – at least 2.5 million acres are readily available. Instead, a combination of archaic tax and environmentally rigid legislation artificially raises the cost of housing, particularly in the very areas where hundreds of thousands of new jobs are being created. For example, Prop 13 penalizes new home developments and local no-growth initiatives preclude homeownership in the areas where new jobs are created.

Greenlining Institute, in combination with three of the largest African American churches in California³ offer the following “End the Racial Divide” recommendations to President-elect Bush, legislators and major financial institutions.

“End the Racial Divide” Recommendations

1. Enact environmentally balanced legislation including:
 - a.) pro-affordable-housing brownfield development requirements;
 - b.) enlargement of the California Environmental Quality Act to include affordable housing as an “endangered species”; and,
 - c.) promotion of regional planning and smart (or “fair”) growth by avoiding rigid local no growth policies and promoting affordable inner city infill sites, including restored brownfield sites.
2. Enact long-term water distribution legislation that permits up to 20 percent of statewide water consumption to be available for residential use (currently, consumption is only ten percent).
3. Revise federal and state homeownership tax policies (such as Prop 13) to promote first time affordable homeownership. (Currently, less than five percent of the nation’s \$300 billion per year in homeownership tax deductions promotes affordable first time homeownership.)
4. Federal and state regulators encourage *all* financial institutions to enact the “best anti-discriminatory and minority pilot outreach practices” of Fannie Mae and Freddie Mac.
5. Pension funds, foundations, investment houses and insurance companies develop affordable housing Equity Sharing programs that could, along with bank no-downpayment programs, reduce the real cost of a California home to the national average. (See footnote for description of plan.)

³ West Angeles Church of God in Christ of Los Angeles, First AME Church of Los Angeles and Allen Temple Baptist Church in Oakland

6. President-elect Bush, Governor Davis and Federal Reserve Chairman Alan Greenspan jointly convene within 100 days a bipartisan Blue Ribbon Committee to ensure the American Dream for all residents of the sixth largest economy and help prevent a recession through the creation of more affordable housing.